TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE

FISCAL NOTE

HB 3389 - SB 3313

February 23, 2012

SUMMARY OF BILL: Expands the definition of "industrial machinery," for the purpose of receiving the industrial machinery tax credit, to include industrial machinery purchased by a general partnership, or by a corporation subject to franchise and excise tax which directly owns a controlling interest in a general partnership, when such industrial machinery is purchased during the required investment period in connection with the establishment of a qualified headquarters facility. Such industrial machinery tax credit shall be computed based on the expenditure, or combined expenditures, of the general partnership and the parent corporation subject to franchise and excise tax.

ESTIMATED FISCAL IMPACT:

Decrease State Revenue – Exceeds $195,000

Assumptions:

- Pursuant to Tenn. Code Ann. § 67-6-224(b), this bill requires any such general partnership, or corporation owning a controlling interest in a general partnership, to make a minimum capital investment of $10,000,000.
- Pursuant to Tenn. Code Ann. § 67-6-224, any additional eligible entity, that meets the minimum capital investment requirement, and that makes qualified purchases of industrial machinery, will be eligible for a tax credit equal to the amount of state sales and use tax paid on the purchases of qualified industrial machinery, except for tax at the rate of one-half percent (0.5%).
- The fiscal impact of this bill is dependent upon several unknown factors such as the number general partnerships that will meet eligibility criteria for receiving the industrial machinery tax credit, the number of corporations owning a controlling interest in a general partnership that will meet eligibility criteria for receiving the industrial machinery tax credit, the additional number of items purchased that meet the definition of industrial machinery, and the cost of any additional industrial machinery purchases.
- Given the extent of unknown factors, determining a precise fiscal impact for this bill is difficult. However, it is reasonably estimated that at least one additional entity will qualify for the industrial machinery tax credit each year as a result of this bill. In addition, it is reasonably estimated that at least 30 percent of the minimum capital investment made by the additional qualifying entity will consist of qualified purchases of industrial machinery.

- The current state sales tax rate levied on purchases of tangible personal property is seven percent.
- The recurring decrease in state revenue is reasonably estimated to exceed $195,000 [($10,000,000 x 30.0%) x (7.0% - 0.5%)]

CERTIFICATION:

The information contained herein is true and correct to the best of my knowledge.

Lucian D. Geise, Executive Director

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